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Chair

Mr. Leon Benoit

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• (1510)

[English]

The Chair (Mr. Leon Benoit (Vegreville—Wainwright, CPC)):
Good afternoon, everyone.

For the last meeting of the afternoon we have as witnesses, from Canfor Corporation, Jim Shepherd, CEO, and Ken Higginbotham, vice-president, forestry and environment; from Federated Co-operatives Limited, William Van Bergeyk, senior vice-president, forest products; and from Weyerhaeuser Company, Paul Perkins, vice-president, policy and planning.

We'll go through the presentations in the order listed on the agenda.

We'll start with Canfor. Go ahead, please.

Mr. Jim Shepherd (Chair, President and Chief Executive Officer, Canfor, Forest Products Association of Canada):

Thank you very much, Mr. Chair, and thank you for the opportunity to address this committee.

Canfor is a leading integrated forest products company based in Vancouver, British Columbia. The company is the largest producer of softwood lumber, and through our pulp income trust, one of the largest producers of northern softwood kraft pulp in Canada. Canfor also produces kraft paper, plywood, remanufactured lumber products, oriented strand board, hardboard panelling, and a range of specialized wood products at facilities located in British Columbia, Alberta, Quebec, Washington state, North and South Carolina.

As a company, we employ approximately 9,300 people directly and indirectly; we have operations in 16 communities in B.C., Alberta, and Quebec; we produce annually 5 billion board feet of lumber production and utilize approximately 9.4 million cubic metres of annual harvest.

Over the past 10 years Canfor has invested significantly in our supply chain management systems to target the home building and retail lumber markets in the United States. Our business strategy relies on a stable and predictable trading relationship with the U.S. to allow us to serve our customers south of the border.

The results of the strategy have led Canfor to be the largest supplier of lumber to Home Depot, Lowe's, Centex, and other large, well-established customers in the United States market. This position of preferred supplier is based on long-term relationships and being a reliable supplier. Today approximately 70% of Canfor's lumber production is exported to the U.S.

The absence of a lumber agreement with the United States hurts our industry. The uncertainty, the high cost of litigation, and the punishing impacts of duties have drained financial resources. This has limited our ability to grow and reinvest in facilities that desperately need new technology. This hurts our bottom line and makes it impossible to undertake the kind of long-term business planning that is necessary for any company to prosper.

So what is the risk of litigation? Canada has been winning the legal battles with the U.S. in softwood, in what is termed as Lumber IV. We acknowledge the expertise and hard work of our various legal teams. In all likelihood, at the end of the day our position will prevail with the NAFTA panels and in the courts. But will this give us closure on this file? The answer is no.

History has shown that despite previous legal victories, there will always be another case at our doorstep. The current case reflects decisions around specific questions and specific circumstances. Change the question, you will get a different answer.

This has been the long-standing tactic of the Coalition for Fair Lumber Imports and, to a certain extent, the U.S. government. The fact is that the courts do not address the fundamental causes of the lumber dispute.

Canfor supports the proposed settlement because we have taken seriously the threat of the next case, Lumber V. Some people will say you don't need to worry about Lumber V because you will win Lumber V. To that I say perhaps, but we are winning Lumber IV, and look at what Lumber IV has cost us. It has taken five years and we still have not prevailed. There was no injury, there was no threat of injury, but it has taken us five years to reach the Court of International Trade, and during all this time our industry has been greatly disrupted and unable to concentrate on its business.

We do not need another such victory that costs so much. It has cost us tens of millions of dollars, and we do not need yet another case to be followed by five more years of fighting to, hopefully, prevail in the end.

It is almost certain that in Lumber V the U.S. will utilize methodologies for calculating the CVD and dumping margins that will produce duties that are substantially higher than those in Lumber IV. We have to recognize that filing these trade cases is just part of the regular way of doing business for some industries in the United States. They know that even if at the end of the day they lose, still they will win years of protection during all the time it takes the foreign manufacturers to fight and win a trade case.

This procedural protectionism that the U.S. practises is very aggravating and unfair, but it is a brute fact that is not going to go away, and we have to take it into account in weighing our alternatives and where we go from here. Changing this reality is the true challenge of solving softwood.

So what role of government should we expect should we not resolve this dispute? What is your role? Governments will be asked to pick up the pieces and help struggling companies, employees, and communities cope with hardships that they will face, and tremendous public resources will be required in the event of mill closures to help communities transition to other local economies.

But significant progress has been made. We cannot lose sight of the fact that over the past six months tremendous progress has been put into this file. Granted, the deal we see before us is not perfect, but let's not follow the pursuit of perfection, because it will finally not give us an acceptable agreement. This agreement creates stability for our industry while leaving relations with our biggest customers intact.

There are no outright winners here, and this is a true indication that compromise has been made on both sides. I have a long history with softwood lumber and can tell you that the perfection of 100% support of an industry on either side of the border is unattainable.

Our industry requires certainty, and this deal will establish that. My company and its shareholders require our deposits to be returned so that we may appropriately reinvest them and provide our employees and communities a more stable employment environment. This agreement allows that.

Many have asked, how can you leave 20% of your duties behind in the United States? My answer to that is that I would rather have 80% of duties back with certainty. It is very difficult to argue for having any of the deposits flow to our competitors and antagonists in the United States, but there is no alternative to get a deal. This is a business decision made in the best interests of our employees, our communities, and our shareholders.

The foundation of a trading partnership is not built in the courts or in the halls of government, but on relationships between companies and customers. This agreement was built on this principle, and the outcome preserves our trading relationships with our customers and provides stability and a very solid base from which to grow. Let's embrace this negotiated settlement as an opportunity to build a trading relationship that prevents us from ever having to endure another softwood lumber dispute again.

Thank you for your time.

• (1515)

The Chair: Thank you, Mr. Shepherd.

Now, from the Federated Co-operatives, we'll hear Mr. Van Bergeyk.

Mr. William Van Bergeyk (Senior Vice-President, Forest Products, Federated Co-operatives Limited): Thank you, Mr. Chair, for this opportunity to present the views of Federated Co-operatives Limited concerning the softwood lumber agreement that is under your review.

FCL provides central wholesaling, manufacturing, marketing, and administrative services to over 285 retail cooperatives, representing 1.1 million individual cooperators across western Canada and the northern territories. I'm proud to speak on behalf of those members and some 18,000 employees—over 3,000 directly and another 15,000 at various retails in the cooperative retailing system.

FCL sales were \$4.78 billion in 2005. Since 1945, the forest products division at Canoe, B.C., has provided lumber for its cooperative members. The division employs about 400 workers, plus some 230 contractors. Its annual productive capacity has grown to 120 million board feet of lumber. Sales of lumber to the United States represented 54% by volume in 2005.

For the record, the deal is bad for Canada, bad for the industry, and bad for our company, and it was ill-timed. It is encouraging that major flaws are finally being recognized. Most of the terms of the deal have been well disputed by others, and I will not repeat them. In some ways, arguing about the components of a bad deal incorrectly infers that any cleanup makes it acceptable. However, I table a more comprehensive document that does outline difficulties presented by the agreement.

Federated Co-operatives Limited is being forced to concede more than \$2.5 million U.S. without recourse because of a deal not of our making. Canada is asked to distribute moneys that the U.S. is specifically prohibited by law from doing. Not only are we disappointed about that loss of more than 20% of cash deposits, to which exporters are legally entitled, but we are also concerned about the adverse impact of the deal going forward. How can absorption of a future export charge that exceeds current unwarranted illegal duties make for a good deal? Based on the current framing lumber composite price, the export charge will be 15%. Surge mechanism may find British Columbia and Alberta subject to 22.5%.

As a medium-sized producer, we are only able to compete successfully because species diversity and manufacturing flexibility enables an emphasis on specialty products. Even though we are primary producers, we add value and manufacture custom products to serve niche markets, just as do remanufacturers. Some examples of products outside the scope of previous agreements include pre-drilled tongue-and-groove decking and cedar-profiled products.

Cedar commands prices in excess of \$1,000 per 1,000 board feet. That species is not even produced in the U.S. south. Higher prices attract greater duty, or export charge burden, but such products require higher input costs with the same squeeze on margin as any producer encounters.

Business is about profit margin and return on investment. Our division must also provide adequate return. Managed trade has failed to permit that. Our margins are eroded to a far greater extent than those of the producers of commodity construction lumber. For commodity producers, a \$50 margin before trade levies on prices of even \$300 per 1,000 board feet may cover a 15% export charge, but specialty producers achieving the same margin on products averaging \$450 are no longer profitable. Also, such specialty products are not directly linked to commodity pricing, yet the framing lumber composite price is based on the weighted average of 15 structural lumber prices. Specialty species and products are noticeably absent from the list. The logic for an increasing tax as prices fall is especially incomprehensible to specialty producers.

• (1520)

The surrender of direct claims to Canada or to escrow importers under a separate purchase and sale agreement creates immediate additional encumbrance. Canada export reporting and monitoring is in addition to U.S. Customs documentation and monitoring. Details of reimbursement remain unclear, and extensions can be granted to the U.S. for entry liquidation.

Canada doesn't guarantee payment, and 10% would not be paid until all moneys are recovered. Protracted payments are likely. Export Development Canada also requires reimbursement for expenses in connection with the amendment of documents, preservation of rights, or enforcement of the purchase and sale agreement.

The agreement has a 34% U.S. market cap, based on surge mechanism clause language, notwithstanding two export charge options.

The agreement provides more uncertainty for our operation. Individual companies are subject to regional choices on export measures. How can that be fair? The proposed monthly system is unworkable, and retroactive penalties deny producers rational business choices. Retroactive penalties for regional over-shipment will be applied to all the shippers. Why should the actions of competitors directly impact our operations?

The obscurity and complexity of the deal present more restrictions than currently exist. Instead of a reduced bureaucracy, the agreement calls for more data collection. A softwood lumber committee and technical working groups are prescribed but would lack authority.

Lastly, the fact that past agreements have failed reminds us that the matter needs to find more permanent resolution through third parties. The omission of previously included objectives is logical, because the deal doesn't meet them. The agreement contains no aids for interpretation or measurability. Rather than fostering stability, it has simply relocated the skirmish from U.S. to Canadian territory. Now it is Canadian regions disputing policies and market share allocation, industry versus government, and companies pitted against one another. We have become enemies within our own land.

Managed trade is market interference. Market interference is not freedom. In a statement on world trade, Robert Zellick, the U.S. trade representative, wrote:

The United States will continue to advance the values that define this nation—openness, opportunity, democracy and compassion. Trade reinforces these values, serving as an engine of growth and a source of hope for workers and families in the United States and the world.

The U.S. has equated freedom with free trade; we should too.

FCL opposes this deal and urges refocusing attention to achieving the original objectives, involvement of our industry, and pursuit of free trade.

Thank you. I'm also prepared to respond to questions.

• (1525)

The Chair: Thank you, Mr. Van Bergeyk.

Now, from Weyerhaeuser Company, we have Paul Perkins, vice-president, policy and planning.

Mr. Paul Perkins (Vice-President, Policy and Planning, Weyerhaeuser Company): Thank you, Mr. Chair, for the opportunity to address this committee.

I'd like to do three things today with my time: briefly introduce myself and the company I represent so that I can put my comments into context for you; explain why we support this agreement; and lastly, look forward to how the government can help us establish principles to break this circle and create a North American lumber industry.

My career with the lumber industry spans over 40 years, the majority of that spent in wood product sales and marketing. The last 24 years have to one degree or another been involved with the Canada-U.S. lumber dispute, and that was from the perspective of a Canadian producer selling into the U.S. market, but a Canadian producer that is owned by a U.S. parent that does not support the coalition.

Weyerhaeuser is the largest lumber company in North America, with production in all three of the primary lumber-producing regions of the continent—the Pacific northwest, which is Washington and Oregon, primarily; the southern U.S.; and Canada. Within Canada we have had a presence since 1965. We have lumber operations in B. C., Alberta, Saskatchewan, and Ontario.

Because of the structure and the position of the company, we have always had a rather unique perspective on this dispute. We have tried to use our involvement on both sides of the border to search for a realistic, long-term solution to this issue.

There are a number of key principles that have been fundamental to our position. We believe that litigation will never be able to resolve this issue. We believe that the root cause of the dispute arises from the differences between the drivers of a predominantly public land supply chain in Canada and a predominantly private land supply chain in the U.S.

In saying this, I want to be absolutely clear that this does not mean we are saying the Canadian producers are subsidized by a public land system. We are simply saying that there are significant differences in the value chain of a system that increasingly relies on plantation timber versus one that relies on extensive natural forests.

In fact, our analysis would indicate that if you could find comparable sawmills across any of these three regions, through a business cycle the return on investment would be relatively similar. We believe that the symptoms of these differences are really evident in low-demand markets, when Canadian timber supply remains more constant and adjusts more quickly to lower lumber prices than U.S. private timberlands.

We believe that lumber is an international commodity and the increase in cost competitiveness of European production needs to be recognized. We believe in free trade, but for lumber in North America we have accepted that managed trade is the only way to avoid endless litigation, given U.S. trade laws and the right and determination of the coalition to use these laws to protect their market position.

With these beliefs, why do we support this particular deal? First, we believe that the two governments ultimately needed the direct leadership of the President and the Prime Minister to drive a deal. Left on its own, neither the Canadian industry nor the U.S. industry could agree on compromises, as evidenced by what has happened since the last agreement expired in 2001.

We believe that it was very important that when the opportunity presented itself, senior political leadership on both sides of the border had the responsibility to do everything in their power to focus everyone's attention on a negotiated solution. Canada and the U.S. brought their very best negotiators to the table to strike a balanced agreement, keeping in mind that both have challenging and diverse constituencies to satisfy.

Secondly, we believe that the fundamentals of this agreement meet key objectives that we had for any deal. It is a longer-term deal—seven years, with the potential of nine. Some say it's shorter because of the termination clause. We do not accept this logic. We believe

that unless extraordinary or unforeseen events occur, neither government will want to terminate this agreement.

It is essentially a bottom-of-the-market restriction that will not penalize our customers with higher costs when the markets are good. It recognizes the concern about growth of third company imports and establishes this as a principle. It sets up structures for the two industries and the governments to work together over the course of the agreement to improve understanding and trust and work side by side on issues of importance to the North American forest products industry.

Thirdly, if you look back two years at the deal we were then considering, you'll see it's clear that the current agreement is a substantial improvement in a number of key areas. Some key examples of improvement include a definition of what constitutes the bottom of the market, the market share entitlement for Canada, the deposit allocation, the management of the agreement, and dispute resolution.

We believe these improvements are the direct result of the ability of the Canadian negotiators to leverage Canada's legal victories. So in our view, Canada effectively used the legal process to drive a better outcome at the negotiating table.

• (1530)

We know there are some who will say that if we'd only waited longer for more legal victories this deal could have been even better. In many ways, your acceptance or rejection of this deal hinges on what you see as the alternative. The alternative for us is continued litigation during what will be a down market, with an eventual negotiated deal probably under changed political conditions in the U. S., which could play into the coalition's political strengths and result in an agreement much less favourable to Canada.

The transition to Lumber V could be very quick if this deal is rejected. Repeating the litigation cycle of the last four years with initial high deposit rates and supported by a weak market, the ability of the U.S. to show injury would be much greater than it was during Lumber IV. For us, it's a pragmatic and relatively easy choice. There's an old saying: perfection is the enemy of the good. We have the best deal that could be achieved through tough negotiations in front of us, and now is the time to move ahead with implementation.

In this regard, and optimistically looking forward to implementation, I would like to ask this committee to help the government to work toward making this a stepping stone to developing a truly functional North American market for lumber. We believe that the committee structure that is proposed can work to help break this cycle of controversy and distrust. Governments need to continue to work together to ensure that the operating principles and structure for the working committees are designed to be constructive and focus on satisfying our mutual customers, the lumber users.

I believe the lumber industry truly should be a part of a sustainable solution for a vibrant North American economy, and working together from both sides of the border, we can achieve this goal. We don't have to fight over dividing the pie. We can in fact make the pie bigger.

Thank you for listening.

The Chair: Thank you very much, Mr. Perkins.

Thank you all, gentlemen.

We'll go directly to questions now, to the official opposition, Mr. Maloney for seven minutes.

Mr. John Maloney (Welland, Lib.): Mr. Higginbotham and Mr. Perkins, you have come out in support of this agreement basically because of your desire to ensure stability in the industry. You've downplayed the termination clause, which would see everything fall apart in a maximum of three years.

Looking at the organization or politicians, or whatever, in the lumber industry, of the coalition, how confident are you really that we're looking at seven to nine years as opposed to something less, a three-year maximum? Knowing the history that Mr. Perkins has gone on at length about, concerning who is on the other side and the difficulties you've had with them over the years, why are you so assured and why do you not feel that Lumber V is not that far away in any event?

Mr. Paul Perkins: I believe there are significant disincentives for both sides to terminate, the way the agreement is structured.

For the U.S., with a 12-month standstill on termination, they would really not want to go to free trade, which this would imply, so there's a disincentive there.

For Canada, there is also a disincentive to terminate in that we don't have a standstill clause. If in fact we are in a situation where there are border taxes, it would not be to our advantage to terminate, because we would in fact find ourselves with almost automatically high anti-dumping rates. Both sides have serious reasons not to terminate.

The other reason I would give is both countries' governments—and only the governments can terminate this. I know I will sound naive, because everyone believes the coalition runs the U.S. government. The reality is that there's a huge amount of sweat equity on the part of both governments to resolve what has been a really sore issue for both of them over the last 20 years. Knowing that, I don't believe they would want to terminate unless they had really good reasons and something had gone radically wrong with the way it was working.

Mr. Jim Shepherd: In many ways, I support what Mr. Perkins has stated. My belief is that governments are tired of this dispute and have put a lot of their energy into finding a solution that's a compromise between two industries that are fighting over a market share.

I would also say that even though two industries have built a relationship around mistrust, there are relationships that have been built through this dispute. With strong government support, dispute resolution built into the framework of the deal, and two industries that just want to move on and grow markets, my bet is that this deal

will run its full course. I'm not concerned about the early termination and its possibility.

• (1535)

Mr. John Maloney: Mr. Van Bergeyk has pointed out what he considers flaws in the agreement—the surge mechanism and the possibility of 22.5% tariffs, a 34% market cap, retroactive penalties, and the concern about stability, which we just canvassed. Are you not concerned about those aspects of the agreement as well?

The Chair: To whom is the question directed, Mr. Maloney?

Mr. John Maloney: It's to Mr. Shepherd and Mr. Perkins.

Mr. Jim Shepherd: Oh, I took it to be a question addressed to my colleague. Can I ask that the question be repeated, please?

Mr. John Maloney: Mr. Van Bergeyk has pointed out examples of what he considers flaws in the agreement. Some of these are the 34% market cap, the surge mechanism possibility and 22.5% duties, retroactive penalties. Are you not concerned about those possibilities as well, and why?

Mr. Jim Shepherd: I have stated that there are risks with this deal. When you look at the market share, the Canadians will have access to 34%, which is higher than the Canadian market share today. This provides a full volume into the U.S. market, assuming lumber markets stay at their current volume. There are risks in terms of the management of the volume over the border on a timeframe. When I compare these to the risks and the rules we have to work with in lumber in our business every day, I'm confident we'll find the protocols, the discipline, the ways of working around the issues.

Certainly for me this is not a case for an attitude of why it cannot work, but what we can do to make it work. I have weighed the risks of this particular deal with the alternative and feel we'll find a way to make it work.

Mr. John Maloney: Mr. Perkins.

Mr. Paul Perkins: I think I'd echo what Mr. Shepherd has said. We understand those risks that Bill has pointed out. They are real. The retrospectivity is in the running rules. Perhaps we're naive, but we think the working committees and the technical committees that are proposed can in fact work positively to overcome some of those.

This is a negotiated settlement. It was never going to be perfect. In fact, we have often said that in some ways it had to be a lose-lose for both sides for it to be accepted, so it was not going to be perfection from a Canadian perspective or a U.S. perspective.

Mr. John Maloney: Mr. Van Bergeyk, do you have any further comment on that? You're shaking your head.

Mr. William Van Bergeyk: The running rules are not clear. The technical group has not been given a specific mandate; that mandate is going to evolve. We have no guarantee that they're in fact going to touch on this issue of how the retroactivity... There's no provision for the retroactivity to change from what's already in the agreement. So the retroactivity is going to apply.

Mr. John Maloney: Mr. Van Bergeyk, this morning we heard from our ambassador to the United States that today is the final day, when the Canadian forestry must buy into this deal. I'll be very blunt: where do you stand on buying into this deal? Is your company going to support it?

Mr. William Van Bergeyk: Our company has not been given a specific letter requesting that we identify our position; however, we have heard that the minister was asking for that. We have gone on record reiterating what we already told him just shortly after the July signing: that we are opposed to the deal. So we will not support the deal.

Mr. John Maloney: Do you have a concept of how many in our forest industry are of like mind to you here today?

Mr. William Van Bergeyk: No, that's one of the things that are going to be very.... I'm very curious to find that out. There is no guarantee we'll ever know. What I heard was that 95% was going to be required. Today I heard even from Mr. Wilson that maybe the number doesn't need to be 95%, that it could be substantially lower. So if the government doesn't know how many, then surely I don't know how many.

• (1540)

Mr. John Maloney: My feeling on flexibility is that whatever number they get will be the number they say they will need. I may be a little bit—

The Chair: Your time is up.

We'll go now to Monsieur Paquette from the Bloc.

[*Translation*]

Mr. Pierre Paquette (Joliette, BQ): Thank you, Mr. Chairman.

Thank you for your testimony. I wouldn't say it clarifies matters any, because as we move through this day, the more the views presented are diametrically opposed. I think that fact alone justifies a decision by this Committee to continue its work with some additional sittings.

Mr. Chevrette, who is CEO of the Quebec Forest Industry Council, appeared earlier today. He described the agreement as imperfect, but added that the industry needs a shot in the arm. He said a considerable number of members had supported the agreement because they need liquidity. This dispute has hit them very hard. In addition to that, the Canadian dollar and energy costs are very high.

In your view, are there some parts of this agreement that need to be improved, even though it may be possible or impossible to do that in the coming weeks? Supposing the Committee recommends that Canadian and U.S. government representatives get together to make certain adjustments by means of letters of understanding; in that case, are there specific issues that you would like to see addressed? Or do you believe that the text of this agreement is perfect the way it is and requires no further change?

From what I've understood, two firms support the agreement. I would like to know whether they believe the agreement has been improved. If the third witness would like to add something, I would be happy to hear his comments as well.

[*English*]

Mr. William Van Bergeyk: With respect to Mr. Chevrette's comments that the industry as a whole—us, all of us—needs oxygen, we certainly don't need the government to apply the mask without turning the oxygen on. We don't want it snuffed, and what is happening is that we're being snuffed.

Mr. Jim Shepherd: Mr. Chair, I'd like to respond in light of the fact that this negotiation has taken years to arrive at. There's an emotional toll on this country that most who are even outside the industry feel attached to softwood lumber, and every time an industry grouping or a section of the forest industry comes back and says we need one more thing, the negotiation will never end.

This is not a perfect deal. It cannot satisfy the interests of everyone, but to leave the emotional aspect of this deal out there continually is not going to be helpful in getting this thing solved. I believe the negotiators have brought the best deal that they can achieve for this country and for our industry. I believe that the statement “the negotiation is over” is the practical and the right statement to make, so industry can make up its mind and move on.

Mr. Paul Perkins: I would just add to that by saying that in my presentation, I referred to—and Bill Van Bergeyk has also talked about it—the fact that some of these working committees have not had their principles laid out. This is not the final answer. There is work to be done, and I think this committee should work with the government to in fact press for principles that will reinforce the desire to get to a functional North American market. Some of these issues can perhaps be improved on going forward. If we do get the majority and we can go forward, then they should be empowered to work in that regard.

[*Translation*]

Mr. Pierre Paquette: Negotiations do, obviously, have to come to an end at some point. That's what we're being told. The industry had very little time to consider the ins and outs of this agreement. We have always encouraged the government to take whatever time it needed to ensure that all stakeholders knew exactly what they were getting into. Yet it would seem that there are still a great many unresolved issues.

I have a copy of the letter Mr. Emerson sent to industries in Quebec. It talks about refunding some of the countervailing duties they paid through Export Development Canada over the next four to six weeks. Yet Mr. Wilson talked about four weeks this morning.

Has anyone explained to you how this is going to work? The first step is to obtain the list of exporters who paid duties and determine approximately what amount is involved in each case. I imagine you are aware of that. If the list is provided by U.S. authorities, that may take a very long time. What specific information have you been given in that regard? For many people, the big advantage of this agreement is that in the short term, they will be given some breathing room. What kind of guarantee were you given that you will actually receive some money within the next month or a month and a half?

• (1545)

[*English*]

Mr. Jim Shepherd: Mr. Chair, the answer to the question is yes, I expect money. What I have been led to believe is that once the negotiated settlement is in fact enforced and put into place, with the timeframe of six to eight weeks through the Export Development Bank, those exporters of record would receive their funds through a process that means we would see that money by that timeframe. So that is my understanding at this point.

Mr. William Van Bergeyk: Annex 2A refers to Canada seeking to ensure that payments would be made within six weeks. Today we heard that it's somewhere between four and eight weeks, and in the annex it simply says "will seek to ensure". It doesn't guarantee, so that the protracted payments are going to be likely, and liquidation only begins 10 days after the effective date of the agreement, but liquidation can take up to six months. So those payments that government is promising the industry are only going to be made to those members who actually sign a purchase and sale agreement.

Mr. Paul Perkins: I think it's been said that, yes, we do expect money. At the Toronto meeting, trade minister Emerson did indicate that it would be somewhere in the six- to eight-week range, and we have heard that the financing process is through EDC. So I think it is there.

To the earlier part of the question, Mr. Chair, about how we were given limited time to analyze this, I would counter that we've had four years to analyze what we could live with. Many of us were at the actual negotiations in Washington for four or five weeks at a time two years ago. This is not a new subject. This is a subject that has been with us for some time. So we have all had opportunity to consider what in fact we could live with going forward.

The Chair: Thank you, Mr. Perkins.

Monsieur Paquette, your time is up. We'll go now to the government side, to Ms. Guergis.

Ms. Helena Guergis (Simcoe—Grey, CPC): Thank you very much, and thank you to the witnesses for being here today.

First, Mr. Perkins, I want to build upon something you have said. You made a recommendation to the committee that once the agreement comes into effect, we should perhaps be working with this joint committee. I'd like you to expand on that a little bit for me, if you can.

Also, perhaps you could just tell us here at committee how you see Canada and the American industry working together in a harmonious way to build a stronger North American market—if you wouldn't mind commenting on that.

As well, at a previous meeting we had a vice-president from your company here, and she made a couple of very good points. I'll be like my colleague Mr. Julian and give her a little round of applause. The first point was that there's no better alternative to this agreement. She also said there was a high degree of political will necessary to reach this agreement and that it should not be wasted. She stated that the opportunity this deal presents should not be taken for granted; it may not appear again.

Of course we know the previous Liberal government was not able to negotiate a deal. I might add that I found it very interesting today to see that they were supporting loan guarantees when they would not support those when they were in government.

I'll move on.

Could you outline why you feel this opportunity needs to be taken advantage of, and what are the factors that increase the harm to industry should this dispute drag on any longer?

Also, perhaps Mr. Shepherd could comment for me. Are the Americans looking elsewhere? Are there third countries, other countries, that are starting to come in and take some of the market because of this dispute? Are the Americans looking elsewhere? Could you elaborate on that for us, please?

The Chair: Mr. Perkins, you look ready and willing to go there.

Mr. Paul Perkins: I'm not sure. I hope I didn't contradict my colleague in any way. She made good points, so I'm not sure what that made mine.

However, on the situation of the committees, the agreement does specify a number of structures, some of which are government only, some of which are industry to industry. I won't pretend to understand how those are expected to function at this point, but what I would be asking the government to do is to both spend time working with the U.S. government in preparation for setting up the structure and principles in a way that they believe will strengthen this agreement and in fact give it the chance to run to its full term. I think it's very important that these committees be given all the opportunity they can have.

That said, I'm not exactly sure how you do that. I think the risks are self-evident. I think the risk, if we do not approve this agreement, is that the political climate in the U.S. changes very dramatically. In fact we did get the President involved, and the senior administrators, for once, in solving this 20-plus-year deal. I don't think an opportunity will present itself again, and I think the chances of going to Lumber V very quickly are real. In fact, they could ask for special presidential orders to impose tariffs on Canada going forward. So I think the risks are very real if we reject this.

• (1550)

The Chair: Mr. Shepherd.

Mr. Jim Shepherd: Perhaps I could address the honourable member's question first on third country imports into North America, and then comment briefly on what I see going forward in terms of preventing Lumber V.

As we speak, the North American lumber market is probably one of the best lumber markets in the world, save Japan, today. There's no shortage of fibre around the world. Today we are witnessing lumber coming in from European sourcing, panels coming in from South American sourcing, and remanufactured products coming in from Asian sourcing. More and more, the global trading of fibre is becoming part of our competition. No longer can Canadian and American manufacturers depend on just a local market for their individual needs. Other countries are starting to see the opportunities and are putting the infrastructure in place and the economics that make sound sense for them, and more fibre will come into our backyard as we go forward into the future.

This leads me to the big concern, how two industries—U.S. and Canadian—have fought continually for a market share that, at the end of the day, may be eroded by third country imports. I think it's absolutely critical for this industry not only to sign this negotiated settlement, but to move forward in a relationship that builds a North American model around our own homegrown industry as opposed to fighting each other. I think that's absolutely critical. When you look at the various lumber cases that we have so valiantly fought, it has typically been through the voices of lawyers, legal counsel, and the courts, which nobody can understand, and nobody can read what the value of these decisions is. We will not solve this through that process.

Certainly, as one in industry, I will put every effort I can into building a relationship with our U.S. competitors so we can build around a North American competitive industry as opposed to fighting over the same pie.

Ms. Helena Guergis: Would it be safe to say you support the binational council outlined in the agreement?

Mr. Jim Shepherd: I think it's a critical piece of the puzzle here. I also think we need strong endorsement from the leadership of both governments.

We also need to not forget the lessons we have learned here. Having been through a number of these fights, we'll go away and come back, whether it's in seven years or some other timeframe, and we'll start over again. We cannot let that happen this time.

I'm very committed, and I know U.S. competitors are committed as well, to finding a solution.

Ms. Helena Guergis: Okay. I will point out one more thing, and if you want to comment on it, please feel free to do so.

Going back to the meritorious initiatives, it's by September 1 that the United States, in consultation with Canada, shall identify the meritorious initiatives in the United States to receive the \$450 million. Some of the projects they're talking about include educational and charitable causes in timber-reliant communities, initiatives related to low-income housing and disaster relief, and of course, the educational and public interest projects addressing forest management.

Do you see an opportunity for Canadian companies to sell their lumber for these projects?

Mr. Paul Perkins: Certainly. Two things have happened, as we understand it, as this agreement has unfolded. It sounds as though the moneys for the meritorious initiatives will be spent over a period of time and put into a foundation, so that there will be continued activity in terms of spending that money, and that they will tend to focus on wood-using opportunities. I see no reason Canadian producers should not be able to benefit from expanded demand that could come from those projects.

•(1555)

Mr. William Van Bergeyk: We already have in place both the Canadian Wood Council and the American Wood Council, who collaborate on that issue of what Mr. Perkins refers to as growing the pie. I'm not so sure we need another extraneous organization or body to do that work; it's already in place.

The Chair: Ms. Guergis.

Ms. Helena Guergis: I want to quickly point out that I think we'll all recall that when the tsunami hit, Canadians dug into their pockets over and above the tax dollars given by the government. It was overwhelming to see how much support they wanted to give. It is the same with any other disaster that's come along: Canadians are very giving. So I don't think you'll see any opposition from Canadians to the disaster relief these dollars will contribute to.

The Chair: Ms. Guergis, your time is up, unfortunately. We'll have a second round.

We'll go to Mr. Julian to end the first round.

Mr. Peter Julian (Burnaby—New Westminster, NDP): Thank you very much, Mr. Chair.

Thanks to each of you for coming forward today with excellent presentations.

I will say, Mr. Shepherd and Mr. Perkins, you put your points eloquently, but you represent a minority of the industry. Aside from the Maritime Lumber Bureau—for obvious reasons involving the maintenance of the maritime lumber exemption—we've had only three presentations from industry that have unreservedly supported the agreement. The majority of the industry is very legitimately concerned about the contents of this agreement.

Though you put your case eloquently, to say that this agreement would mean we would never endure a softwood war again I don't find very credible. In fact, given that we are going over the last two hurdles of litigation—and we know these are the last two hurdles, because they're not appealable—I think that giving \$500 million to the coalition actually increases the opportunity for a war to come back at us, because the funds will be there, the oxygen will be there, ironically, for the American industry to come back and fight the Canadian industry.

More specifically, I'd like to get to some questions. Mr. Van Bergeyk had an excellent presentation. The first point I'd like to touch on is the issue of raw log exports. It's a big issue in British Columbia. We're seeing logs leaving our province and going to the United States. That's where the jobs are ending up.

You mentioned in your presentation that even though you're primary producers, you add value and manufacture custom products, and that you're concerned about the impact of this proposed agreement on that value-added manufacturing. Could you expand a bit on that and on the danger you see that this deal, as many have said, would actually encourage raw log exports—in other words, continue that reduction in jobs that has critically hit softwood communities across the country?

Mr. William Van Bergeyk: I think it's very clear that the U.S. is interested in our wood, but they're only interested in their doing the manufacturing. The plants below the 49th parallel are the plants that want to be working, and they would rather put us out of business.

Let's just compete fairly. Let's not have market interference. Allow us to compete competitively, truly competitively. Jim has identified that there is a market share, and we have either lost or gained it. We lost it during the softwood lumber agreement. We have only since regained it, and now they're crying about it again. I say let us just compete for market share and not have market interference.

Mr. Peter Julian: And what you and the nearly 300 retail cooperatives you represent across the country favour is that the industry moves to loan guarantees—that's been very clear from a number of the presentations—and that we get over those last two legal hurdles so that we have that victory once and for all, namely, the tariffs taken off and the moneys reimbursed.

Mr. William Van Bergeyk: For any of those opponents to loan guarantees, I would simply say, if you don't want the loan guarantees, then get out of interfering in the marketplace. You've got to either offer the loan guarantees unequivocally or you've got to say you'll get out of the market interference altogether.

Mr. Peter Julian: Thank you for that.

I'd like to come to the running rules, because you mentioned in your presentation from the Federated Co-operatives that "The proposed monthly system is unworkable and retroactive penalties deny producers rational business choices. Retroactive penalties for regional overshipment will be applied to all shippers under the surge mechanism." And you asked the question, "Why should actions of competitors directly impact our operations?"

I'd like to ask each one of you, starting with Mr. Van Bergeyk, how you could put in place these running rules. Do you have an implementation strategy? These are monthly, retroactive, after the fact, as we know. I've certainly received from softwood producers right across the country concerns about the complete lack of commercial viability of these arrangements, and we have two supporters here.

So what arrangements would you put into place to cope with these running rules that the industry has virtually unanimously said are commercially non-viable?

We'll start with Mr. Van Bergeyk.

• (1600)

Mr. William Van Bergeyk: I think what you're going to see is a rush to the border under certain circumstances, and then when the cap has been hit, everyone will suffer. I don't think that's right.

I'm not so sure business is likely to want to make shipments into a market where they don't know whether they're going to pay 0%, 5%, 10%, 15%, or 22%, and just roll the dice. That's not what business is about. You need to know some of that information in advance.

Mr. Peter Julian: Around the running rules, yes.

Mr. Jim Shepherd: Mr. Chair, the running rules can be interpreted with ominous signs, but the practicalities of day-to-day operating this business are that everybody is running and selling full. Limitations are railcar availability, transportation logistics, and infrastructure around getting the movement of goods. I believe the market share that Canadians will have access to will be adequate for this capacity to continue.

Lumber prices and the economics of running a mill will be a bigger influence on running or not running. I feel that the key for us to manage our business.... I look at the overwhelming realm of needs in an industry such as lumber, and this is just added to it. Information on a daily basis of volume going over the border is a very doable system that will be put in place, and companies will be able to monitor very quickly what's happening in terms of the volume going over and will manage their behaviour accordingly.

Again, I come back to the need for this solution here, but there are mechanisms, systems, and information strategies that can be put in place to deal with the running rules.

Nobody liked the retroactivity. I think it's clear to say this is difficult for us and it will put discipline into an industry that we just cannot afford to go into surge volumes. As the biggest lumber producer, I know this is a risk for us.

Mr. Peter Julian: And how do you see that discipline being put into place?

Mr. Jim Shepherd: Through daily information on volume going over the border. If you know what you're dealing with, then you behave accordingly.

And again, it's not as if mills have huge capacity, that they surge out on a daily basis. The infrastructure of softwood is a very well-established balance right now on logistics, railcar availability, trucking capacity, and so forth. Unless you have a mill right on the U.S. border, most of what you're dealing with is an even flow of product out of your mill.

Mr. Paul Perkins: Mr. Chairman, I'd just like to respond to the honourable member's point with a couple of views.

One, we learned to live with the SLA and manage it as an industry. It was a complicated agreement too, put in place in order to meet U.S. demands. We've learned to deal with the vagaries of the legal decisions over the last four years that create opportunities with no duties and windows. That's certainly not security.

We view this as a planning horizon that has better opportunities than either of those, and in fact if we are able to build our structure around it and understand the rules, then we will learn how to play by them. We can't play by a system that changes with every legal decision.

In terms of what has been said, this is better than the alternative. Certainly we don't like retroactivity, but on the other hand, there was a debate within the industry as to whether retroactive was better than prospective, and there were companies in the east that supported retroactivity for option A. So I wouldn't put forward that it was a black and white case, even on that one.

Mr. Peter Julian: Mr. Shepherd said it is difficult for us. Would you agree with that comment?

Mr. Paul Perkins: It's certainly difficult. It's not a world we've lived in in the past, but if that's the world of the future, we'll figure out how to live with it.

The Chair: Thank you, Mr. Julian. Your time is up.

We'll go to a second round, starting with Mr. Boshcoff for five minutes.

Mr. Ken Boshcoff (Thunder Bay—Rainy River, Lib.): Thank you.

I have three quick questions.

Mr. Van Bergeyk, regarding the end of the legal victories, industry used to have a considerable share, as we won all of those court awards at various times, and now essentially the feds have said there's no future help and that you're on your own. I'll let you think of the fact that we are so close to actually doing it right and getting everything. I'll just leave that one with you.

Mr. Perkins, it was alluded to earlier on today that quotas are illegal in the WTO, international law, and those kinds of things. The corollary is that with the reduction to 30%, or whatever it may be, it will probably be less than what most people have now, so that no matter what happens, we'll be getting less.

Thirdly, Mr. Shepherd, you seem to be able to explain the mechanics of things. Much of this started when the dollar was at \$1.54, and now it's at \$1.12. What about the interest over this time, and all of those kinds of financial calculations? Will we get the interest? We will we get a dollar at \$1.54, or will be get it at \$1.12, what it is now?

Please, gentlemen.

• (1605)

Mr. William Van Bergeyk: Regarding the entry into force and what we really believe is the end to litigation, it still remains unclear to us when the agreement does come into force, because that effective date has not been determined. But when it does, it will require that all of the conditions precedent be met. We have no way of knowing whether in fact all of the eight conditions precedent will be met.

Most disconcerting to us is indeed the termination of litigation. We believe that one of the requirements for WTO notification of mutual agreement indeed spells out that we're caving in or capitulating. We believe that the benefits of any previous decisions will be forgone and of no use in the future. We think that we're at the cusp—I heard it said earlier—of coming to that final resolution. Contrary to what my counterparts in the industry are saying, we really believe that.

Mr. Paul Perkins: Mr. Chairman, if I understood the question of the honourable member, I think it went along the lines that quotas are illegal and that the WTO somehow has ruled that quotas are illegal. I guess I'd answer in two parts.

One, the softwood lumber agreement that we lived with for four years was a quota. I'm not sure that answers the question.

The second part is that, as I understand them, WTO decisions have not been ruled as binding on the U.S. So while we've had a number of WTO decisions, the U.S. has not necessarily followed those, so I don't find that too comforting.

Mr. Jim Shepherd: Mr. Chair, in responding to the honourable member's question about interest, as I understand it, certainly we will get the interest that has been accrued on the deposits of exporters of record. My understanding is that it will be calculated and valued at the current exchange rate. Over time, as the Canadian dollar has

appreciated in value, it has certainly hurt the amount of money that will be recalculated in Canadian dollar terms.

Again, factoring all that in, I'm still very supportive of moving forward.

Mr. Ken Boshcoff: When we talk comparatively about one deal versus another and where we're going and the fact that previous deals seemed to be on course and didn't surrender so quickly and dramatically, it's been stated very clearly through several sets of witnesses that we've come to the end of the legal wars and that the Americans virtually have nowhere else to turn. So if we sign now, then we have to pay them back; if we continue on the legal track, then we don't have to pay anything back.

I guess that in a nutshell is the whole course of all these hearings. So I'd be very keen to hear your analysis of that.

The Chair: Mr. Shepherd.

Mr. Jim Shepherd: Mr. Chair, this is the crux of the decision companies must make. I hope I'm clear. The \$1 billion we leave behind today and the termination of litigation of Lumber IV is a decision to be compared with continuing litigation, getting your \$1 billion back, and facing even higher and more punitive duties going forward into the future. And as much as nobody in this room can predict the future accurately and with any assurance, I am convinced that with strong U.S. government and coalition support, Lumber V is something we want no part of.

• (1610)

Mr. William Van Bergeyk: Based on an administrative review, one of the arguments made was that you're going to be facing 14% countervail duties come December. In my opinion, 14% is a lot better than 15%. I don't know about your math, but that's still better. And every single preliminary administrative review has always come up with higher numbers and been reduced when it came to final administrative reviews, so I'm not convinced this 14% number is even going to be factual.

The Chair: Mr. Perkins.

Mr. Paul Perkins: Mr. Chairman, the honourable member is characterizing this as the end of the lumber dispute. We're very much of the view that this would be the start of the next lumber dispute and that we would be back in four years with rates that were put forward without evidence, that we would be back in four years in a market that will be much worse than we were in four years ago, and that in fact the alternative would be higher rates. Yes, we would in fact, if we followed out today's litigation, be entitled to our deposits back. The question is, what did we buy with the \$500 million? We bought the package, which includes all of the elements of it.

So our view is that we bought this period of peace in which we can develop something further and hopefully use it as a bridge to a North American market.

The Chair: Thank you, Mr. Boshcoff. Your time is up.

Now we go to Monsieur Vincent, for up to five minutes.

[Translation]

Mr. Robert Vincent (Shefford, BQ): Thank you, Mr. Chairman.

Thank you for coming to Ottawa to meet with us. You have a very convincing brief, in my opinion. It says that we bought peace for \$500 million. That is a little expensive, but a lot of other things run completely counter to that. In fact, over the course of the day, I have heard people say that the industry needs a shot in the arm and that tomorrow's agreement could be even more costly than this one.

People have referred to the high dollar, interest rates, the price of oil and the export percentage, namely 5, 10 or 15 per cent. I even heard someone say 22 per cent. How will the industry possible manage?

[English]

Mr. Paul Perkins: Mr. Chairman, the honourable member has made a very strong statement. I would argue that the interest rates, the strong Canadian dollar, and the high oil rates are all going to contribute to what is going to be a weaker forest industry in Canada over the next period of time. Regardless of whether this deal is put in place or not, we will face a very tough competitive market going forward. I don't think the deal should be blamed for those conditions.

Without this deal, we could argue that we will have significantly worse conditions because of the uncertainty and because of the ability to use those worse conditions to drive a more draconian solution upon the Canadian industry.

So yes, your economic points are well taken. This sector will face an uphill struggle for the next several years with the Canadian dollar where it is and with the housing starts declining.

The Chair: Mr. Van Bergeyk.

Mr. William Van Bergeyk: To your question, Mr. Vincent, there is no question that a strong Canadian dollar, or what we'll say is maybe a weak U.S. dollar, interest rates, market conditions, market share—whatever you call it—are going to be very significant factors that we all face. I'd just as soon face those independent of any other market interference. Give us those things to contend with by themselves and we'll do quite well, thank you.

The Chair: Mr. Shepherd.

Mr. Jim Shepherd: Mr. Chair, we are not dealing with the Canadian lumber industry, we're dealing with 400 individual lumber companies, all with different economics, in 10 different provinces, with different wood baskets and different costs of doing business. The tragedy in this file is that everybody has a different need, and there is nothing worse than a strong Canadian dollar, low housing starts in the United States, high costs of transportation. All these elements build to a very difficult market condition. With over 400 different views of what's needed for them, I don't see any other way of getting around to some consistency here.

• (1615)

The Chair: You have two minutes, Mr. Vincent.

[Translation]

Mr. Robert Vincent: Just to conclude, it seems to me that even without the 5, 10 or 15 per cent, given the high Canadian dollar and the cost of oil, our industry will be at a disadvantage as far as exports are concerned. Furthermore, adding 5, 10 or 15 per cent is tantamount to handing the forest industry a death sentence. If nobody does anything and \$500 million is being allocated here and

there, I believe there is a real danger that it will find itself in the same situation as the textile industry.

I'd be interested in hearing your views.

[English]

Mr. Jim Shepherd: We currently operate several facilities in the United States, and these facilities are struggling the same as Canadian companies and Canadian mills in Canada are. The gist of this deal is to build some sense of the bottom of the market and those terms around lumber pricing that apply the tax. My sense is that the industry on a North American basis will not sustain these lumber prices that will equate to these high tax levels. Nobody can survive, not even U.S. competitors.

So at the end of the day, something will change. And my prediction is that the high levels of tax rates that are being talked about today will not be sustainable.

Mr. William Van Bergeyk: Mr. Shepherd said he saw no resolution; I see a resolution through a third party. Because the resolution hasn't been reached between two parties, it needs a third party to resolve it. There is no question that in the interim the industry is going to be drastically affected by market pricing, markets that are perhaps weakening, interest rates that are rising. I'd just as soon face those independent of market interference and get this resolved through a third party.

The Chair: Mr. Perkins.

Mr. Paul Perkins: Our position would be very close to that of Canfor's. Some of the elements described, such as the high Canadian dollar, have pushed up the Canadian cost floors to the point where the bottom of the market, as described in this agreement at \$355.... We should remember that at \$355 random-length composite, we do in fact have free trade. Although we're there today, we don't believe the ability to sustain prices well below that is sustainable on either side of the border. So we are believers that the government has done a good job of establishing what can be a reasonable bottom-loaded target for this industry.

As I said earlier, the advantage of the bottom-loaded target is that it will not penalize our U.S. customers when markets are good, but we should not forget that we are into a very difficult market right now.

The Chair: Mr. Van Bergeyk, go ahead.

Mr. William Van Bergeyk: Mr. Chair, just as a point of correction, at \$355 we are not at free trade; there is still a market cap of 34%. We should never forget that. In either option, option A or option B, there is a market cap.

The Chair: I see Mr. Perkins shaking his head. If you would, please respond to that, Mr. Perkins.

Mr. Paul Perkins: We don't want to start to argue here at the table with our own compatriots.

My belief is that the market cap also goes away at over \$355, and you are in fact in free trade under either option A or option B. But I am not the expert on that element of it. Someone would need to research it.

The Chair: Okay. We will now go to Mr. Lemieux, for five minutes.

Mr. Pierre Lemieux (Glengarry—Prescott—Russell, CPC): Thank you, Mr. Chair.

Gentlemen, thank you for being here today.

I'd just like to pick up on a comment made by Mr. Perkins. It's important because he's the one who mentioned that this agreement is actually for seven to nine years. That hasn't changed. Yes, there's a termination clause, which would be at 24 months possibly—18 months plus the six months that we had spoken about before—but for those of you who are participating in this committee and those of you who have been watching the proceedings, if you've been listening to the opposition, they're trying to play two cards at the same time. The one card is that this is an absolutely fantastic deal for the U.S., and the second one is that they're going to terminate it, this great deal, after 24 months.

You just cannot have it both ways. So I want to underline the fact that your argument disconnects. I also want to underline the fact that the deal is for seven to nine years, as you gentlemen well know.

The second thing is that we have to inject some reality here. The first part of reality is that the lumber industry will get over \$4 billion back. That's what they're lacking right now. What we heard from Mr. Paquette earlier today was that there's a lumber operation closing down in his riding. We heard from an earlier witness that there are companies closing down and there are workers being laid off. That's today; that's with no lumber agreement. So if that situation continues, we're going to see more of that, and that's what we're hearing from industry. This softwood lumber agreement will take back over \$4 billion and inject it into our Canadian lumber industry.

Lastly, to pick up on a point that I think Mr. Shepherd might have made about continued litigation, if we have no softwood lumber agreement, the U.S. Coalition for Fair Lumber Imports has been very direct, very upfront and straightforward that they will renew litigation. They will do it. They are on record for having said so. So going back to the silver bullet, the fact that if we don't have a softwood lumber agreement everything is going to just disappear, all the problems will go away, I think that is untrue and very unrealistic.

The question I'd like to pose actually is to Mr. Perkins and to Mr. Shepherd, because you both represent companies in the lumber industry. No doubt you've heard your employees discussing softwood lumber at length. What I'd like to know is how would the softwood lumber agreement in fact help your employees, the men and women who work for you in our lumber industry?

Thank you.

• (1620)

Mr. Jim Shepherd: Mr. Chair, I think I speak on behalf of all the employees in Canfor in saying that the confusion that has been generated through media reporting, the Canadian tone on the anti-American sentiment on softwood lumber, the bias that we're winning in the litigation, has all led to expectations that we're winning this thing. So there's confusion, I would say, as to what's really happening here. But at the end of the day, in the company that I represent, people want certainty. They want to know they can go to work tomorrow morning; they want to know that the company can reinvest in the facilities to be more competitive and stay in the game

of producing lumber. They just want to know that their jobs are secure.

I believe that with the return of the duties, the certainty on the rules of trade and the prevention of Lumber V gives our employees the most certainty of any option that we have in front of us. Many will not be able to explain why this deal is good or bad and in many ways are more tied up in the emotion of why Canada must give in to the interests of the United States, but at the end of the day, what they want is certainty and the opportunity to go to work tomorrow morning.

Mr. Paul Perkins: I think I would just support what Mr. Shepherd has said. I think our employees know the industry is going through very significant change. Competitiveness in Canada is an issue, and continuing to be competitive is an issue. This is just one element that adds to the confusion, the fact that we are said to be winning, yet we don't win, yet it never ends, the fact that they would like to be able to see an end to this part of the dispute, because frankly, it's not well understood where we are in that regard. The ability to manage to control their destiny with elements that they can work on, such as recovery, and shipments, and the fundamentals, I think, is what they want to do.

The Chair: Thank you, Mr. Lemieux.

Mr. Cannan, go ahead.

Mr. Ron Cannan (Kelowna—Lake Country, CPC): Thank you, Mr. Chair.

Thank you, gentlemen, for your comments.

I want to pick up on a couple of comments that Mr. Julian made. Our government is very concerned about the industry. We're not going to leave the industry once the deal is signed. We're still going to be there for you. We have a great minister and ministry staff who are working with the industry.

I believe, Mr. Shepherd, you were with Premier Campbell when he announced that the government was coming on board, and it is a concern, I know, among my colleagues on the island with regard to the review of the log exporting policy. Maybe you can explain a little bit about that. That's still running in parallel, under review with Premier Campbell and the government—Minister Coleman.

• (1625)

Mr. Jim Shepherd: Mr. Chair, first of all, Canfor did exit the business of coastal logging earlier this year, so really my comments are more as a buyer of chips. What I've seen happen in British Columbia with the differences of interior and coast.... Again, to go back to the issue of who the lumber industry is, it has many different faces, many different-sized companies, many different needs. The coastal industry has its own unique set of circumstances, with log exports off private lands being a specific issue for that industry today.

I, representing Canfor, have not been averse to finding elements in this deal that help address that issue. But to hold up the whole industry across this country for specific needs in specific regions is an issue that our premier had to deal with. I think he has come up with the right compromise, supporting the deal so that we can move on, yet addressing the issue, so that he will help the industry find solutions for its needs on the coast.

The Chair: Thank you.

Finally, to Mr. Julian, five minutes.

Mr. Peter Julian: Thank you very much, Mr. Chair.

I want to come back to testimony we had on July 31. This is in regard to Canfor from Mr. Stephen Atkinson, who, as you know, is a very respected analyst with BMO Capital Markets. This is what he

said: When you look at a situation like a Canfor that is going to run its lowest-cost wood, then clearly you're going to shut down those lumber mills in the southeast quadrant. What happens then is that it'll put some of the pulp mills in danger, whether it be the Kamloops mill, whether it be the Celgar mill, and then that supply comes into question.

He goes on to talk about job losses in other parts of the country, including northern Ontario, but says at the end:

Very quickly, on raw logs, really what happens there is this. Let's say you're paying a duty—pick a number again, 15% or 5% or whatever it is. If you can bring in the log without any duty to the United States, then of course it makes sense to put the lumber mill there and create jobs south of the border.

My question, obviously, on Canfor's case is whether part of your business plan is commiserative with what Mr. Atkinson has said, the closure of mills in Canada. Do you plan to expand in the United States? Similarly to Weyerhaeuser, you've scaled back your operations to a certain extent in Canada. Do you have plans to open new mills in the United States?

You've both been referring to a North American market for lumber. Of course the concern in softwood communities is that what we're going to be seeing are Canadian raw logs going to fuel American jobs. So do you have plans to expand, and are these comments by Mr. Stephen Atkinson legitimate?

Mr. Jim Shepherd: Mr. Chair, I took that to be many questions, and I'm not sure which one you'd like me to address.

In terms of Canfor's intent to shut down mills, the answer is no. We have two facilities in the southern part of the province of B.C. They are competitive mills, and they intend to be part of the Canfor family going forward into the future.

The economics of the high Canadian dollar, low chip price, low lumber price, higher energy costs, higher transportation costs—those are the elements that come into running the business as much as anything. So it's not a softwood lumber deal based just on lumber pricing and tax. It's an added burden, I admit, but at the end of the day, mitigating this risk against much higher duties in Lumber V is the better security for our mills in the southern interior.

The Chair: Mr. Perkins, go ahead.

Mr. Paul Perkins: I think my answer would be that we are continually looking at the market levels; we are looking at what the shutdown position should be. We currently have a mill in Saskatchewan that is in fact down because the pulp mill is down. So the economics of the market, as I have said repeatedly here, are difficult, and we are expecting to see demand decline in the U.S.

To the best of my knowledge, we are not looking at expanding in any geography at this point in time, and I would be surprised if we were, given our view of the shrinking consumption on the U.S. side. We're certainly working very hard to expand our sales in markets

other than the U.S., and we'll do everything we can to keep our employment, keep our mills operating, and be competitive.

Mr. Peter Julian: I'd like to move on to this issue, which was actually raised by my colleague, around the question of litigation. He asked why the Americans would want to bring an end to the agreement after 18 months. Very clearly, the answer is that they get a billion dollars; they get to erase four years of legal victories, where we have not come yet to those two final hurdles that would install in jurisprudence the fact that Canadian lumber is not subsidized; and in a sense, they get the proceeds of trade crime. So there's lots of incentive to sign the agreement, and then after 18 months—now that we've seen the diluted version, even from July 1—move to terminate.

So we don't see any stability coming out of this agreement. However, what we do—and witness after witness has raised this issue—is erase all the legal victories that have taken hundreds of millions of dollars and four years to win.

So my question to each of you, starting with Mr. Van Bergeyk, is why would we sell out four years of legal victories and then start in Lumber V, which is inevitable—I think everyone concedes that—with \$500 million going to the American coalition and with all of our legal victories eliminated, starting from scratch, having to reinvest those hundreds of millions of dollars in legal costs if we choose to defend our industry? We could just capitulate, which is apparently what the government wants to do. But why would we erase four years of legal victory when we have two hurdles to go?

I'll start with Mr. Van Bergeyk.

• (1630)

Mr. William Van Bergeyk: Thank you very much, Mr. Julian. That's exactly our question: why would we want to do that?

I think what we're going to see is capitulating to a battle or a skirmish that has arisen in the country below us, and we're simply relocating it. What we're now finding is that industry is arguing different points of view. Industry is going to be arguing over some form of allocation—quota share, if you want to call it that—some market share allocation. We're going to rush to the border. We're going to trip over one another.

We have a very unique situation here, that we should appear before this committee. Weyerhaeuser and our company have a very unique relationship. We sell them chips and they need our chips. I'm sure both parties would like to see that relationship flourish. Mr. Perkins has indicated so. They want to keep operations going. We do too. But this deal is not going to ensure that. We'd like to see a resolution by the third parties, and then I really believe, contrary to what I heard from my counterparts, that we'd see results.

The Chair: I'd like to give the other two members of the panel a chance to respond to that question.

Mr. Paul Perkins: Mr. Chairman, my response to the honourable member is that we don't share the same vision of the future alternatives. Clearly, the precedents that he talks about we don't see as having necessarily large value.

I must repeat that for somebody who has lived through Lumber I to Lumber IV, yes, we've gone further in this case than ever before, but my understanding even of the CIT decision is that it's only binding on this particular issue. If in fact we should lose on the appeal, it would not be binding on the USTR on the next round. I guess it comes down to how you see the future, and we certainly see it based on where we've been over the last years. We are in fact looking at this as being a reasonable alternative going forward.

Mr. Jim Shepherd: Mr. Chair, I would like to address the issue of this particular round of litigation.

It started immediately following a five-year deal of managed trade to the SLA in which there was no chance of using that timeframe for any complaint against Canada for subsidy or threat of injury. Within a week Lumber IV is launched. Common sense says no wonder we're winning this round; how can you go in less than a week from nothing to something that is all threat of injury and subsidy? So I

would say that with respect to the cases we have won—I don't know the relevance in Lumber V—the one group that has made a fortune, and continues to make a fortune, is the legal entity in this softwood lumber dispute. Let this industry move on with certainty.

The Chair: Thank you.

And the final word was from the panel, from Mr. Shepherd. I want to say this was a fascinating panel. I appreciate all of you taking the time to come, and your presentations and your answers. It was much appreciated.

I would like to also thank all members of the committee for their questions throughout the day, and all of the staff—the clerks, the research staff, the interpreters—involved for making this work. Thank you very much.

This meeting is adjourned.

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